

# Credit Union Update

PRISM Visits & Year End Issues

26 July 2013

# PRISM Overview

- Probability Risk and Impact System (PRISM) is the Central Bank's risk-based framework for the supervision of regulated firms.
- The principal is to apply a risk weighting to each regulated financial institution based on its potential impact on the financial stability of the overall economy.
- The intention is that it will be applied consistently across all regulated entities and provide clarity as to the opinions and views of the Central Bank.

# PRISM Visits

- PRISM visits range from a general overview comprising one day of meetings with credit union officers up to a five day assignment which includes reviews of assets, policies and procedures as well as meetings with the officers.
- The topics covered at meetings include the following areas:
  - Current financial performance
  - Board skill-set and competences
  - Strategic planning and future direction
  - Strengths and weaknesses
  - Contingency planning

# PRISM – Risk Mitigation Plan

- On completion of each PRISM assignment, the Central Bank will issue a “Risk Mitigation Plan” outlining the issues identified and the timeline for their correction.
- Each credit union will also be assigned a risk weighting which will impact on the number of supervisors attached to the credit union and also the frequency of future visits.
- Central Bank representatives have noted that follow-up visits will initially focus on the actions of the credit union to the matters highlighted in the Risk Mitigation Plan.

# PRISM – Key Matters Noted

- The following are a sample of issues identified by Central Bank officials during the PRISM process:
  - Inadequate understanding or documentation of the credit union’s roadmap
  - Lack of documentation of assumptions underpinning financial projections and potential impact on value in use calculations and property impairment
  - No evidence of nomination committee consideration of expertise required on the board of directors or the impact of the fitness and probity regime
  - Inadequate succession planning
  - Lack of evidence of discussions with respect to disaster planning
  - Board of directors placing “too much” focus on operational rather than strategic matters
  - Lack of a policy register and evidence of periodic review of policies
  - Inadequate documentation of loan under-writing procedures

# PRISM – Conclusion

- Requirement for a comprehensive strategic plan based on detailed financial projections to manage risk
- Financial projections to be prepared based on documented assumptions which are subject to stress testing
- Strategic plan to include consideration of external matters which if / when they were to occur would impact on the credit union's operation
- Documented organisation structure and succession planning
- Board of directors to review profile of membership and select suitable candidates for potential appointment as directors and office-holders
- Documented AML procedures to be put in place with defined officer roles

# Year End Issues

- Property valuations
  - Particular focus on properties built/renovated in last 10 years
  - Valuation at least every 5 years or where indication of impairment identified
  - Value in Use to be applied where indication of impairment
- Projections
  - Require at least 3 – 5 years detailed projections
  - Assumptions to be documented and be realistic
  - Prepare best case/worst case/expected
  - Consideration to be given to potential impact of personal insolvency legislation on future provision requirements

# Year End Issues

- Loans
  - Full Loan book review
    - Ensure documented and override provisions identified are applied to member accounts on the credit union system
    - Assumptions must be consistent
  - S35 Compliance
    - Temporary arrangements
    - Frequent top-up lending with little fall in overall capital repayable
    - Top-up loans with reduction in repayment levels
- Investments
  - Contact investment institutions to ensure all investments statements received immediately after year end
  - Ensure sufficient documentation of decision process on long-term investments
  - As credit unions are generally favouring short term investments, consider:
    - Reduced Income
    - Counterparty risk
- Central Bank
  - Draft financial statements to be sent before setting AGM date?
  - Dividend and reserves policies?



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